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SUBJECT
MASTER
Filed

From the Private Secretary

22 January 2007

Dear Irfan,

IRAQ: MEETING WITH OFFICIALS

The Prime Minister met CDS and senior officials from FCO, SIS, MOD, DFID and Cabinet Office for an update on Iraq today.

The Prime Minister said that he had appreciated the reports produced by officials ahead of his weekend box. It was clear that a significant effort was required on reconciliation and reconstruction. We would need also to press Maliki on putting in place the suggested four man committee, to demonstrate commitment to cross-community government. In Basra, we should clarify gaps in 10 Division's capabilities, and how best to fill them. And we should try to ensure that the Iraqis put capable people in place in Basra. He would speak to Maliki about this. He also thought it important to take on the leaders of militant JAM, as part of our efforts to protect against attacks in Basra.

CDS noted that we were targeting key individuals, but not JAM as an organisation. We were also working to counter indirect fire attacks. This was difficult in an urban environment, but our ability to defend against them should improve with the move to the Air Station. We also had some success in countering IED attacks, but this was inherently difficult to do given the operating environment. The Prime Minister asked about Iranian involvement in providing equipment and expertise for such attacks. CDS outlined proposed action to deal with this threat. The Prime Minister noted the importance of measures that would cause Iranians to put pressure on their own government to change policy.

The Prime Minister asked about progress in delivering reconstruction funds to the South. Martin Dinham (DFID) noted that \$300m had already been delivered to the South, and that our efforts were now focused on ensuring that Barham Saleh and the Provincial Authorities were able to work together to get funds flowing. We had worked hard to help the Basrawis produce good project proposals, which meant that they were in a much better position to secure

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funding. This sort of exercise was unique across the Iraqi provinces, but we were planning a conference with other PRTs to spread best practice. The Prime Minister welcomed this, and noted that he had told Gates not to underestimate the strategic importance of Basra being soon to move in the right direction.

Martin Dinham outlined the work being done by David Broomfield on reconciliation, noting Broomfield's early impressions that there was a certain amount of complacency amongst Iraqi politicians, who believed that reconciliation would simply happen, without the ground having to be carefully prepared, and that a great deal of ad hoc activity was attempted and then, often, simply discarded. This meant that there was little monitoring of progress, or learning of lessons.

The Prime Minister noted that the essential elements of reconciliation were that the Sunnis felt there was a genuine coalition in power in Baghdad, that there was a process to address constitutional issues, and that there was a fair share of public posts and resources. one obstacle to continued outreach efforts was the lack of a sense of political momentum, now that national elections were out of the way. The Prime Minister reiterated the potential for a formal agreement in one Sunni area to act as an example to others.

I am copying this letter to Sir Gus O'Donnell, Sir Richard Mottram, Margaret Aldred and Tim Dowse (Cabinet Office), PS / C, (MOD), Howard Taylor (DFID), (HMT), Sir David Manning (Washington), Dominic Asquith and Lt-General Graeme Lamb (Baghdad), Ros Marsden and Major-General Jonathan Shaw (Basra).

Yours,



NICK BANNER

Irfan Siddiq, FCO

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UK DEVELOPMENT PACKAGE FOR IRAQ

Our approach: helping unlock Iraq's own resources

1. Iraq, including the Basra region, has considerable economic potential, but is constrained by: the poor security situation, weak capacity of central and provincial institutions to deliver public services, and the dilapidated state of key infrastructure, including electricity and oil. The economy does not provide enough jobs, public services are run-down and basic infrastructure is inadequate. On average Iraqis get only 10-12 hours of electricity per day, and the situation in Baghdad is even worse.

2. The cost of reconstructing the Iraqi economy is well beyond anything the international community can afford: the power sector alone is estimated to need over \$20 billion in investment. Iraq itself has sufficient resources to invest, with oil revenue around \$33 billion this year. The key, therefore, is for Iraq to develop capacity to use its own resources effectively. The UK is committed to helping the government of Iraq achieve this. Our assistance is about helping Iraq to help itself.

The package: using our aid to leverage greater Iraqi investment

3. We are proposing a three part development "package" for Iraq. The aim is to give Iraqis a stake in their own future by using our support to leverage in greater Iraqi investment, and to address immediate needs caused by current levels of violence. The package is in addition to our bilateral water and power projects in the south, and our national-level capacity building work in Baghdad. It includes:

a. An **additional £5 million for humanitarian work**, to be released in the coming weeks bringing the total DFID contribution to £15 million this year (and over £130 million since 2003). This will address immediate needs of vulnerable people inside Iraq and displaced in the region. There are an estimated 4 million Iraqis displaced internally and in the region, due to sectarian conflict. Many are in dire condition, with no education and health facilities. We are also working closely with the UN to enable the UN to take the lead in coordinating an effective international response to the crisis.

b. A suite of **technical support initiatives worth over £10 million** to promote public and private investment in Basra in the near to medium term, implemented through the UK-led Provincial Reconstruction Team (PRT). These initiatives include support to establish the Basra Development Fund and the Basra Investment Promotion Agency, both elements of the Prime Minister's economic initiative letter to Iraqi PM Maliki on 29 July. The focus of these initiatives is to help unlock Iraq's own resources. They include:

i. Helping Basra Provincial Council set up a **Basra Investment Promotion Agency (BIPA)** to provide advice to business and

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government and implement programmes to stimulate private sector development. This is the first provincial development agency to be established in Iraq. The Government of Iraq has agreed to fund all of the operating costs (\$500,000 per annum) of BIPA. The DFID team, through the PRT, will cover start-up costs for the Agency and on-going technical advice. Our work with the Basra Council on BIPA has also catalysed thinking in Baghdad around establishing a National Investment Commission. We are now working with the Government of Iraq to take this forward.

- ii. Establishing a **Basra Development Fund** to provide credit to small and medium sized enterprises. Basra Provincial Council has agreed, in principle, to resource the Fund with \$30 million from its 2008 budget – a significant breakthrough. We expect the Fund to be up and running by the end of the year. We are also working with central government to consider other options for capitalising the Fund including possible investment from within the region.
- iii. Helping the Provincial Council to develop **Basra International Airport**. The Provincial Reconstruction Team (PRT) together with MND-SE and the Basra Council have produced a \$40 million plan to upgrade the airport to international standards. Our technical team in Baghdad is now working to unlock this money from central government, in collaboration with Basrawi officials.
- iv. Strengthening Basra's position as one of Iraq's economic hub. Basra is a key trading and economic centre: the expansion of trade opportunities between Basra and Kuwait has the potential to reach billions of dollars. We are working to promote **free trade between Basra and Kuwait**, including support for a trade conference between Basra and Kuwait in early 2008, and promoting the development of a cross-border economic and trade zone.
- v. Going forward, we have identified a number of other opportunities to enhance business leadership and stimulate economic growth in Basra. These include a **'Business Leadership' conference** comprising a series of high-profile events to strengthen the engagement of the UK private sector with Iraq and enhance regional linkages and networks. We might consider events in both the UK and the region (perhaps in Dubai, chaired by the Iraqi Deputy PM, attended by the Provincial Council).
- vi. These activities are in addition to our **on-going economic governance work** in the south, which has enabled the Basra Council to produce the first-ever Provincial Development

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Strategy in Iraq, and to improve budget planning and execution. Basra's investment budget is now 70% committed, a significant improvement over last year.

c. Our technical support has helped to leverage significant investment from the centre. The third component of the package is a response from the Government of Iraq (GoI) in the form of an announcement of **over \$300 million for investment in Basra from the 2007 national budget**. We expect (but cannot yet confirm) that Deputy Prime Minister Barham Saleh will announce this in the days leading up to the Prime Minister's statement. We anticipate that approximately \$195 million of this will be channelled through the Basra Provincial Council against the priorities in the Development Strategy. A further \$115 million will be invested directly by central government.

4. In addition, we are working with MND-SE, other major donors and the central government to **accelerate renovation of Umm Quasr Port**. We have, for example, successfully lobbied the GoI to approve over \$250 million in soft loans from the Japanese for port renovation.

Delivering the package: 'connecting' Baghdad and Basra

5. The challenge of development in Basra cannot be addressed in Basra alone. Many issues require leadership and capacity building at the centre of government, in Baghdad. They also require leadership and sustained engagement from major multinational institutions such as the World Bank, the UN and the EC. To this end, we are working in *both* Basra and Baghdad to unlock resources for Basra's development, and bringing officials from both locations to third countries for training and workshops.

6. Working flexibly in this way will enable us to adapt to a changing political and security environment. It means we can continue working without necessarily having a team on-the-ground at all times in Basra. We propose to retain a DFID Head of Basra Office for the foreseeable future, and maintain a team of international consultants in Basra as long as possible and necessary. How and where we work will be driven by the business needs.

Achievements to date: power and water for a million Basrawis

7. The UK has already provided **total funding for reconstruction worth nearly £750 million**, including programmes run by DFID and our contributions to the European Commission and United Nations.

8. By the end of March 2008, DFID will have spent nearly £90 million since 2003 to help create employment and improve southern Iraq's key infrastructure. Five of our seven infrastructure projects are already finished. Once this portfolio of projects is complete, DFID will have improved power and water supplies to over 1 million people in Basra.

DFID, September 2007

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